



# Strothman & Company PSC

## Financial News & Views

1600 Waterfront Plaza • 325 W. Main Street • Louisville, Kentucky • 502.585.1600 • <http://www.strothman.com>

### February 2011

#### Contents:

- [General Business News](#)
- [Tax News](#)
- [Tax Tip of the Month](#)
- [Financial News](#)
- [Stock Market News](#)
- [Technology News](#)
- [The Strothman Spotlight](#)
- [Upcoming Strothman Seminar](#)

### General Business News

#### Boost Sales by Expanding Payment Choices for Clients

If your business is like most, your clients come from diverse backgrounds and income levels. Some are old, some young and more than a few of them are among the millions of baby boomers approaching retirement. What do these seemingly different types of customers – and potential customers – have in common? They all demand a variety of choices when it comes to paying for your products or services.

#### The Cashless Consumer

According to a recent survey, in 2008 about 80 percent of American consumers carried a debit card; 78 percent had a credit card; and 17 percent had a prepaid card. The survey also reported (no surprise here) that paper check and cash payments have steadily declined.

Credit and debit card use has increased dramatically in a global economy where carrying large amounts of cash is much less common than it was a generation ago. Direct deposit has become routine, meaning many consumers never see cash unless they withdraw it from the bank. As a result, debit cards have proliferated as the vehicle for making purchases with checking account funds.

#### Move Over Cash and Credit – Debit Cards are King

According to Visa.com, the total number of Visa debit cards in the United States increased to 382 million in 2009, while the total number of Visa credit cards decreased 11 percent to 270.1 million. MasterCard credit cards were down 22 percent, and American Express and Discover were down 9 percent and 6 percent, respectively. Debit cards are quickly becoming the preferred choice for e-commerce transactions as well as those conducted in person.

#### How Credit Cards Can Increase Your Sales

Accepting credit card transactions can increase your sales by encouraging customers to spend more, giving them the flexibility to buy bigger ticket items and make monthly payments when they cannot afford to buy an item outright. In addition, credit card companies often incentivize their

cards with reward programs offering rebates, travel discounts and other benefits to encourage use.

### **Security and Convenience**

Consumers rate security and convenience as the two most important aspects of making purchases. This applies whether orders are received by mail, phone or online through a virtual terminal. The major card providers have instituted a variety of methods to screen for fraud, even if you are not physically swiping the card at your terminal. Internet sales continue to climb and a merchant account from a reputable provider is the first step toward getting your share of these transactions.

### **Choice Brings Benefits**

At the counter, over the phone, by mail or online, your customers expect security, convenience and speed when they make a purchase. Failure to provide all three of these essential elements will result in lost sales, even after the buyer has placed your items in their shopping cart.

Above all, your customers want the *choice* to use their preferred method of payment. By offering a variety of payment options, your attention to flexibility and choice will make a good impression on the buyer, expand your customer base and retain existing customers.

The flexibility for your customer to pay securely with a variety of credit cards, debit cards and through electronic funds transfer can bring many benefits, including:

- Improved cash flow
- An expanded customer base
- Better client retention rates
- Higher sales revenues
- More international customers

Is your business taking advantage of this continuously growing cashless trend? You can meet your diverse customers' requirements by ensuring that you are ready to accept a variety of payment methods – and that your buyers don't run into any glitches or surprises at checkout.

If you don't already have a merchant account for your business, now is the time to find the right provider for that service and give your customers the payment options they need. If you don't, your competition will.

[Back to top of page](#)



## **Tax News**

### **The Return of Estate Taxes – Should You Elect Out?**

One great concern for many tax planners at the end of 2010 was how to adjust for the reversion of estate tax provisions to pre-Bush levels. Congress and the President solved that problem with the passage and enactment of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 – at least for a few years. This law reinstated the estate tax for 2010, 2011 and 2012; but it also allowed executors of estates for those who died in 2010 to elect out of estate tax. It's important to understand which option for settling an estate is best for you.

### **Basis step-up**

Prior law repealed the estate tax for 2010. Along with that repeal, the basis step-up rules were

also eliminated. Those rules allowed heirs to increase their basis in inherited assets to the fair market value at the date of death. Here's how it worked:

Assume John died holding two stocks – Stock A valued at \$4.5 million and Stock B valued at \$500,000. Now, assume that both stocks were originally bought by John for \$1 million each. Under the old rules, the tax basis of the heirs for the assets would be the fair market value at the date of death or an optional valuation date six months later. If the stocks were subsequently sold for \$5 million, the heirs would pay no income tax. In essence, the gain on Stock A would escape income taxation while the loss on Stock B would provide no income tax benefit.

Instead of the basis step-up rules, Congress allowed for a modified carryover basis regime that provided some relief to taxpayers. Under the rules in effect for most of 2010 (i.e. no estate tax), the basis of the heirs would be:

	Non-Spouse Heirs	Spouse
Carry-over basis of Stock A	\$1,000,000	\$1,000,000
Basis adjustment under carry-over basis rules	1,300,000	3,000,000
Unrealized net loss on Stock B	500,000	500,000
Basis in Stock A	2,800,000	4,500,000
Fair market value of Stock B	500,000	500,000
Income tax basis to heirs	\$3,300,000	\$5,000,000

As you can see, the non-spouse heirs would receive significantly less in basis if the executor elected out of estate tax. This means that, upon sale of the stock, they would pay \$340,000 in income taxes on the sale at the date-of-death value (assuming a combined 20 percent federal/state tax rate).

Since the new law reinstates the basis step-up rules and increases the estate tax exemption to \$5 million, many estates and heirs will benefit under the law. In the preceding example, while the spouse would not benefit from the step-up basis rules, non-spouse heirs would value estate assets at \$5 million (the actual fair market value) and escape income and estate taxes.

The preceding example is simplistic in nature and does not take into account all potential scenarios. Some issues you should also be aware of include:

- The new law retroactively reinstated the estate tax. What this means is that an executor can elect to use the old law, but that election must be made on the estate tax return. Otherwise, the assumption is that the estate is subject to the estate tax.
- The new law assumes that any property inherited from a descendant was long-term in nature. This meant that any capital gain would be treated at the lower, more favorable capital gains rates. This is not so if the executor elects out of the estate tax for descendants who pass away in 2010.
- It is highly possible that an election out of estate taxes for 2010 will have the effect of transferring the tax burden from one beneficiary to another, depending on the types of assets distributed to each. As such, care must be exercised to ensure all beneficiaries are treated equitably.

These points represent only a few considerations in settling the estate of a person who died after 2009 and before December 17, 2010. Depending on the size of the estate, the decision will require complex analysis and calculations before choosing whether to use the law as it was

enacted in late 2010 or elect out of the estate tax for descendants dying in 2010. Because the due date of any estate tax return is no earlier than nine months after December 17, 2010, give us a call and let's be certain that any decision you make is the best one for you.

[Back to top of page](#)



## **Tax Tip of the Month**

### **What's New on Form 1040**

After months of uncertainty regarding possible tax cut extensions, we now know which breaks have been extended and which ones have hit the deck. Here's how the major changes stack up.

#### **Health Insurance Premium Deductions for Self-Employed Taxpayers**

In the past, eligible self-employed taxpayers could deduct their health insurance premiums from their federal tax bill. For 2010 only, health insurance premiums also may be deducted from self-employment taxes using Schedule SE. This tax break is not slated to continue beyond 2010 unless Congress chooses to extend it.

#### **No Phase-Outs for Itemized Deductions and Exemptions**

For 2010 filings, Bush-era tax cuts repealed phase-outs for itemized deductions and exemptions, and recent legislation extended the repeal through 2012. This extension ruling means that higher-income taxpayers will not have itemized deductions – such as mortgage interest, state and local income and property taxes, and charitable contributions – subject to a phase-out ruling. Likewise, a similar phase-out ruling covering personal and dependent exemption deductions was repealed for 2011 and 2012 as well.

#### **Adoption Credit Maximum Increased**

The maximum adoption credit was increased to \$13,170 for 2010, from \$12,150 in 2009. The credit – previously regarded as nonrefundable – was made 100 percent refundable for the 2010 tax year. The refund will be applied to your federal income tax bill, and you will receive a check for the difference (if any remains) after your taxes are paid. In order to claim this credit, you must fill out Form 8839 (Qualified Adoption Expenses) and enter the credit amount on line 71 of Form 1040.

#### **Home Purchase Credit Repayment Requirements**

Homebuyers might have to repay some or all of the credit claimed for a home purchase made during 2008 or 2009 through their Form 1040 for 2010. For the most part, only those who purchased homes during 2008 will be subject to this ruling. These individuals will be required to repay 1/15<sup>th</sup> of the credit on the 2010 Form 1040.

#### **Real Estate Deduction for Non-Itemizers Has Expired**

Unmarried individuals who did not itemize were allowed to write off up to \$500 of state and local real estate taxes by claiming an increased standard deduction for 2008 and 2009. Married joint-filers were allowed to write off \$1,000. This provision expired at the end of 2009 and was not extended into 2010.

#### **Tax Break for Unemployment Benefits is Not Extended**

Previously, the first \$2,400 of unemployment benefits was not subject to federal income taxes. Now, all unemployment benefits received during 2010 must be reported as income on Form 1040.

#### **No More Tax Breaks for New Vehicle Purchases**

Stimulus Act tax breaks aimed at spurring purchases of new vehicles lapsed at the end of 2009, and they were not reinstated for the 2010 tax year. Previously, non-itemizers who paid state and local sales taxes on new vehicles purchased between February 17, 2009, and December 31, 2009, were granted a temporary write-off. Eligible purchasers were granted an additional standard deduction write-off, and itemizers were also allowed to claim an extra itemized deduction for these taxes.

### **April 18 is Tax Deadline Day for 2011**

Because April 15 falls on a Friday and that Friday happens to be Emancipation Day (a District of Columbia State holiday), the deadline for tax returns is Monday, April 18. If you wish to extend the deadline to October 17, 2011, your Form 4868 must be filed by April 18.

The summary above provides general comments only. Your professional tax advisor can provide more detailed information and advice tailored to your specific needs.

[Back to top of page](#)



## **Financial News**

### **Home Based Business Deductions Worth a Close Look**

Did you know that more than half of all U.S. businesses are home based? These business owners are sometimes referred to as homepreneurs. Mary Kay Cosmetics and even Ford Motor Company were once businesses based at home. This no longer conjures up the image of an unshaven man in pajamas sipping coffee in front of his laptop. These business people are real players in the world of commerce today.

While working from home has distinct advantages, it also has real headaches. You must have excellent management skills and be able to separate your home and work environments. Even with all its challenges, there is much to be said for making your own business decisions. If you run a home business, you must be prepared to take advantage of every tax deduction available at tax time.

Your home itself will be one of your most important deductions. The home office deduction applies if you use part of your home *regularly and exclusively* as your principal place of business or to meet with clients. You can also claim an unattached separate structure if it is used in connection with your business. *Separate rules apply for home daycares.* The definition of home can also be extended to include apartments, mobile homes, condominiums and even boats. The amount you can deduct will depend on your gross income and total business expenses. But be careful, because definitions in this part of the tax code can be tricky. Plan to consult a professional before claiming the deduction.

Are you traveling in your personal vehicle to meet with your clients? If so, you might be able to claim a portion of the vehicle expense basis as a business expense. You will need to keep track of your business mileage separately from personal use of the vehicle to claim this deduction. The IRS allows you to use either standard mileage rates or actual expenses in determining the deduction.

Do you pay your own health insurance? If so and you or your spouse are not eligible for employer-subsidized insurance, you might be able to claim the deduction on your federal income tax return. To claim it, you must be self-employed and have a net profit for the tax year.

Other deductible expenses might include a portion of real estate taxes, rent, utilities, mortgage interest, repairs and maintenance. Don't get too carried away with the maintenance expenses, though – items such as painting a room or mowing the lawn are not deductible. You must provide documentation for all expenses you are claiming for your home based business, including the square footage portion of your home used for this purpose.

Generally, you should keep these records for a minimum of three years after the date you file the return. You must also be able to prove your home's depreciation. To do so, show the date of purchase, purchase price and any improvements made. Be sure to exclude the land value in computing the depreciation expense.

Scheduling a visit with your CPA can help reduce your record-keeping worries. We will be able to provide essential information to you such as specific records you must keep, what tax forms must be filed and the methods you should use to keep track of income and expenses.

With this headache out of the way, you can slip back into those pajamas, pour yourself a cup of coffee and enjoy running your business from your own home.

[Back to top of page](#)

.....

## **Stock Market News**

### **Stock Market: Encouraging Performance Cheers Investors**

The Dow Jones Industrial Average topped 12,000 – a threshold that had not been crossed since 2008 – as January drew to a close. The excitement proved tough to sustain, however, as the market retreated and then rebounded the following day. The 12,000- point milestone doesn't increase GDP or boost exports, but it does provide the psychological lift that investors need from time to time. Are we seeing the beginnings of a bull run? Answers range from a qualified “yes” to predictions of future minor market corrections. Whatever their stance on future prospects, most analysts agree that index performance and rallies like the recent one help draw investors from the sidelines back into the equity market. Here's what some of the influential commentators are saying.

#### **More Amenable to Risks of Equity Markets**

The current low yields from the bond and treasury markets are making the stock market more attractive to investors. The Dow gained 11 percent in 2010 at a time when yields on Treasury notes ranged from 2.5 percent to 4.0 percent. Investors took notice, as evidenced by an influx of equity purchases in November 2010 – a trend that reversed six months of negative flows. The investors who have decided to return to the stock market are doing so slowly, according to market research, and they tend to favor blue-chip stocks.

#### **The 12,000 Barrier**

To those investors disappointed that the Dow Industrials stopped at 12,000 and failed to push through, the pros urge patience. Many analysts recognize that the pullback might have been created more by psychological factors than any others. It has been noted over the years that investors place disproportionate importance to round numbers and that these psychological perceptions become self-fulfilling prophecies.

#### **Big Names Rebound; Small-Caps Dither**

Companies listed on the Dow are benefiting from investors' preference for big names, but small-caps have not benefited to the same extent. Trend lines of the Russell 2000 index of small

capitalization stocks suggest that over the past two months, the relative performance of the index has been worse than both the Dow and the Standard and Poor's 500 indices. It must be noted, however, that more Russell 2000 individual stocks have advanced than declined in the past 60 days. Trading patterns also suggest that the most aggressive activity on the Russell 2000 happens when stock prices decline – a bearish trend.

### **Mixed Earnings Reports**

Some experts think we might be due a market correction – albeit not a big downturn. These analysts have noted the U.S. market's sour take on the recent disappointing GDP figures from the U.K. They predict similarly unimpressive data from U.S. sources. Analysts also note that earnings reports are proving to be a mixed bag, with both Proctor & Gamble and Colgate-Palmolive taking hits after releasing financial reports showing a profit slide of 28 percent for P&G (compared with 2010, which was bumped up by a large gain from discontinued operations); and Colgate-Palmolive's failure to hit projected earnings targets.

Whether bullish or bearish, experts don't deny that challenges remain. They note the U.S. is still in a recovery mode, and if unemployment rates don't decline and/or inflation rears its head, the market's recent progress could be stymied.

[Back to top of page](#)



## **Technology News**

### **Technology: Smartphones Usurp User Privacy**

Recent media reports show that smartphone applications are regularly breaching the privacy of their users, sharing personal data widely without the knowledge or permission of their users. The mobile communications industry is relatively young. And when it comes to sharing user data with third parties, currently there are no standard industry practices and no consistent way customer data is handled. An entirely new business sector now exists to assemble data gleaned from cell phone users into customer profiles. And whether we know it or not, most of us are part of their stock in trade. As our reliance on smartphones and the games and applications we download onto them continues to grow, this is an issue that merits our attention.

#### **Why the Concern?**

Few devices contain more pertinent information about their owners than smartphones: data that includes their unique ID reference number; phone numbers they have stored; their age and sex; and their location. This demographic information is a valuable commodity to online tracking companies that sell it to third parties (usually advertising/marketing companies) to target potential customers. To cite a common example, some popular music applications send out user data to a variety of online tracking companies. The information that these apps share could be geographical data used by online marketers to target you with offers from local businesses; or it might include specifics that provide the third party with your name and demographic group (age, ethnicity, gender, etc.). Tracking a phone's location enables online tracking and ad exchange companies to "guess" where a user lives and match that information with spending and demographic data from other sources. The company is then able to offer marketing companies a likely prospect for their goods/services.

#### **Snooping Comes With the Service**

On your desktop computer, you have the option of blocking or deleting intrusive browser cookies that monitor your website use. You can't do that on your phone – the unique ID on each phone is put there by the makers, carriers or companies that operate the systems and cannot be removed.

This UDID can never be changed or turned off. It is a permanent “cookie” that gives online tracking networks the chance to snoop and gather personal data 24/7.

It is disturbing to note that many users have no idea their phone is broadcasting personal information because the apps they use don't tell them. If you use *Yelp* or *iWant* (or other popular GPS-reliant apps), you know these apps ask to use your current location in order to provide the maps or merchant listings you have requested. Unfortunately, not all apps do this; nor do they let you know that your location and other data are being shared with unknown third parties. When it comes down to it, some of the biggest offenders are the ones we use most frequently – such as text messaging and music download applications.

It's no stretch to see how such practices infringe on customers' basic privacy (and their expectations of privacy). As well as the troublesome “Big Brother” aspect, consumers are worried that personal data could fall into the hands of third parties with harmful intentions.

Major players in the mobile communications industry such as Apple and Google say they protect their customers by requiring apps to obtain permission upfront from users. Practical experience suggests that some app vendors bend the rules. Some claim, in defense, that the data they transmit is anonymous to the outside companies and cannot be linked to any one person's name.

The trend toward more aggressive Internet marketing tactics is plain to see. What remains to be seen, however, is how the industry will balance consumer privacy concerns with their desire for profits as the race to turn personal data into cold cash intensifies.

[Back to top of page](#)

.....

## The Strothman Spotlight

**Joe Johnston CPA**  
Director of Tax  
[jjohnston@strothman.com](mailto:jjohnston@strothman.com)  
502-585-1600



### *Just ask Joe...*

Meet Joe Johnston, Director of Tax for Strothman & Company. Joe has over 18 years of experience working in both public and private accounting. He spent his first 10 years of public accounting providing both audit and tax services and then left public accounting to become the controller for a \$200 million dollar division of a multi-national engineering company. Joe returned to his true passion, public accounting, and has narrowed his focus exclusively to tax for the past five years.

Joe works with clients in a wide range of industries including healthcare, manufacturing, advertising, retail sales and real estate. He works closely with business owners and wealthy individuals and has significant individual, corporate, partnership and merger and acquisition experience. His primary focus is to reduce his client's tax burden by tailoring tax strategies to specific situations. Joe says the key to tax planning is understanding the clients business and personal goals - only then can you navigate the increasingly complex tax code to develop the best tax minimization plan.

When he's not in the office, Joe enjoys spending time with his wife and four children. They keep

him busy at home attending sporting and scouting events as well as being an active member in their church.

Because of Joe's extensive knowledge of the tax and accounting industry, a common phrase among Strothman & Company staff is "When in doubt – just ask Joe!" With tax season ramping up, there are bound to be many questions for Joe in the upcoming months!

Have a question or want a second opinion on your taxes – Just ask Joe at 502-585-1600.

[Back to top of page](#)

.....

## **2011 Seminar Series**

### **Economic Update** *Profiting from Trends*

Presented by



**Thursday**  
**February 24, 2011**

**Owl Creek Country Club**  
Registration 7:30 AM  
Seminar 8:00 AM – 10:00 AM  
Refreshments Provided

**Featured Speaker**  
Mark Lamkin CFP®, MBA  
Founder & CEO - Lamkin Wealth Management

Was 2000 to 2010 really the lost decade for the stock market? No, but you did lose money in the stock market over that 10 year period if you bought the S&P 500 index and held it with no proactive changes. If you're thinking there has to be a better way to invest, we believe you're right! Please join us to hear how the use of technical analysis on a proactive basis can spot strong market trends and help reduce portfolio volatility.

Mark T. Lamkin, CFP®, MBA is founder and CEO of Lamkin Wealth Management (LWM), a financial planning firm located in Louisville, Kentucky. LWM specializes in Advance and Protect strategies that provide tactical investment solutions in today's volatile markets. Business First has ranked LWM in the top 10 consistently and Barron's Financial listed LWM as one of the top 15 investment firms in Kentucky in 2009.

Please invite friends and associates to attend this FREE seminar. This Strothman & Company seminar qualifies for two hours of Continuing Professional Education (CPE) for CPAs.

Please make your reservations by **Tuesday, February 22, 2011** in one of the following ways:

Call Jenna at 502.585.1600

Email [rsvp@strothman.com](mailto:rsvp@strothman.com)

If you have any questions, please call us at 502.585.1600 or email [info@strothman.com](mailto:info@strothman.com)

[Back to top of page](#)

.....

---

If you have any questions, please call us at 502.585.1600 or email [info@strothman.com](mailto:info@strothman.com)

## your first choice...for a second opinion

Wouldn't you want to know for sure that you are paying the least amount of tax that you should be paying? Call us and we'll give you a FREE second opinion of your company and personal tax returns – Typically we will find significant tax savings. **Find out more by calling us at (502) 585-1600 or visit [www.strothman.com](http://www.strothman.com)**



**Strothman & Company PSC**  
Certified Public Accountants & Advisors

1600 Waterfront Plaza . 325 West Main Street . Louisville, Kentucky 40202 . [info@strothman.com](mailto:info@strothman.com) . [www.strothman.com](http://www.strothman.com)

These emails are provided to you by Strothman & Company.  
Please reply to this message to change your notification preferences.